

REPORT OF
ASSOCIATION FINANCIAL EXAMINATION
TRITON INSURANCE COMPANY

AS OF
DECEMBER 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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Fort Worth, Texas
December 9, 2004

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Jorge Gomez, Wisconsin, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Acting Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Triton Insurance Company

also referred to as the "Company" or as "Triton." The Company's administrative office is located at 3001 Meacham Boulevard, Suite 200, Fort Worth, Texas 76137, telephone number (817) 348-7557. This examination began on July 19, 2004, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Triton Insurance Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covers the period from January 1, 2001, to December 31, 2003, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date of December 31, 2003, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

The examiners relied upon information and workpapers supplied by the Company's independent auditors, KPMG Peat Marwick, of Dallas, Texas, for the statutory audit covering the period from January 1, 2003, to December 31, 2003. This information included, but was not limited to, attorney letters, loss reserve analyses, and internal control narratives and testing.

Comments – Previous Examination

Listed below are the relevant comments, recommendations, and notes of the previous report of examination as of December 31, 2000, and the subsequent response or action taken by the Company.

Intercompany Transactions

Previous Comment/Recommendation: The Company mistakenly failed to disclose in the 2000 Annual Statement Notes to the Financial Statement the Service Agreement entered into with Citicorp Insurance Services, Inc. effective January 1, 2000. Therefore, it was recommended the Company ensure all management, service, and cost sharing agreements involving the Company are correctly disclosed in the Annual Statement in accordance with the annual statement instructions prescribed by the NAIC.

Company's Response: “The Company will ensure that all management, service and cost sharing agreements involving the Company are correctly disclosed in the Annual Statement in accordance with the annual statement instructions prescribed by the NAIC.”

Current Findings: All management, service, and cost sharing agreements involving the Company appear to be disclosed in Triton's 2003 Annual Statement.

Previous Comment/Recommendation: It was recommended that the Cost Sharing and Service Agreement be amended to reflect an allocation method that will produce a suitable and equitable distribution of expenses between the two contracting parties. In addition, pursuant to RSMo. Section 382.195 (Transactions within a holding company system), the Company was directed to file this agreement with the Missouri Department of Insurance.

Company's Response: “A new Cost Sharing and Service Agreement was filed with the Department October 19, 2001. The Department advised it had no objection to the agreement by letter dated October 29, 2001. Additionally, the Company will adopt a revised allocation method producing a suitable and equitable distribution of expenses between the two contracting parties. This method will involve a time study allocation method of full time employees by functional department. The allocations will be updated twice a year to ensure current and accurate distribution of expenses.”

Current Findings: All intercompany agreements reviewed during the current examination had been submitted to the Missouri Department of Insurance. The allocation methods related to these agreements were reviewed and no material problems were noted.

Reinsurance-Assumed

Previous Comment/Recommendation: The Company was directed to maintain in accordance with Missouri Regulation 20 CSR 200-2.100, (Credit for Reinsurance), the necessary amount of funds in a trust account to ensure that it would not realize a loss as a result of the transactions associated with the reinsurance agreement currently in effect with Consolidated Insurance Association.

Company's Response: "All transactions associated with the reinsurance agreement between Triton and Consolidated Insurance Association have ceased effective second quarter 2002. An affiliate, Gulf Insurance Company, has become the direct writer of this business, which was previously written by Consolidated Insurance Association, ceded to Triton and retroceded by Triton to S L & H Reinsurance, LTD."

Current Findings: The Company did not have a reinsurance agreement in effect with Consolidated Insurance Association as of December 31, 2003.

Internal Control System

Previous Comment/Recommendation: The Company was directed to ensure that all reconciling items appearing on the monthly bank statement reconciliation are posted to the ledger in a timely manner. In addition, the Company was directed to implement adequate procedures and controls to ensure that the relationship of the information interfaced from the administration system of its general agent is reconciled in a timely manner with the information maintained on the Company's credit insurance administration system and in the general ledger.

Company's Response: "In 2002, the Company implemented adequate procedures and controls to ensure that the relationship of the information interfaced from the administration system of its general agent is reconciled monthly with the information maintained on the Company's credit insurance administration system and in the general ledger."

Current Findings: The Company's relationship with its general agent, G.D. van Wageningen was terminated in 2004. The timeliness of clearance of reconciling items on Triton's bank statements has improved.

HISTORY

General

Triton Insurance Company was originally incorporated under the laws of the State of Florida on March 25, 1982, as Voyager Guaranty Insurance Company and commenced business on July 6, 1982. In September of 1991, the Company moved its administrative office from Jacksonville, Florida to Fort Worth, Texas. On January 1, 1993, the Company redomesticated from the State of Florida to the State of Missouri and began operating as a stock casualty insurance company under the laws of the Revised Statutes of Missouri (RSMo), Chapter 379, (Insurance Other Than Life).

On January 16, 1995, the name of the Company was changed to Triton Insurance Company. Triton Insurance Company is a wholly owned subsidiary of CitiFinancial Credit Company, which in turn, is an indirect wholly owned subsidiary of Citigroup, Inc. (formerly known as Travelers Group, Inc.).

Capital Stock

The Company is authorized to issue 4 million shares of \$1 par value common stock. As of December 31, 2003, 3.4 million authorized shares were issued and outstanding for a common capital stock balance of \$3.4 million. The Company's immediate parent, CitiFinancial Credit Company, owns all of the outstanding common stock shares.

Dividends

Total cash dividends declared to the sole shareholder during the period under examination were as follows:

2001 Dividends	\$ 15,931,000
2002 Dividends	22,976,000
2003 Dividends	<u>29,672,000</u>
Total dividends declared from 2001 to 2003:	<u>\$ 68,579,000</u>

Management

Pursuant to Article II, Section 2 of the Company's Bylaws, the Board of Directors shall consist of at least nine (9) directors, but not more than twenty-five (25), duly elected at each annual meeting of the shareholder. The directors elected and serving as of December 31, 2003, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Richard C. Agnello Arlington, Texas	Executive Vice President Triton Insurance Company
Dava G. Carson Keller, Texas	Executive Vice President and CFO Triton Insurance Company
Dianna L. Cook Weatherford, Texas	Senior Vice President Triton Insurance Company
Peter B. Dahlberg Fort Worth, Texas	Vice Chairman Triton Insurance Company
Patricia E. David Dallas, Texas	Senior Vice President and CAO Triton Insurance Company
Darrell J. Gambero Southlake, Texas	Chairman, President and CEO Triton Insurance Company
John D. Hatch Ocala, Florida	General Counsel and Secretary Triton Insurance Company

Carolyn S. McCormick Highland Village, Texas	Executive Vice President Triton Insurance Company
Regina V. Rohner Dallas, Texas	Senior Vice President and Chief Actuary Triton Insurance Company
William J. Sheppard ¹ Santa Monica, California	Vice Chairman of the Board Triton Insurance Company

Article III, Section 1 of the Company's Bylaws provide that the officers of the Company shall consist of a president, one or more vice presidents, a secretary, a treasurer, a chairman and vice chairman of the board of directors, and such other officers as the board of directors may deem appropriate. The executive officers elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Office</u>
Darrell Gambero	President, CEO and Chairman of the Board
William J. Sheppard ¹	Vice Chairman of the Board
Peter Dahlberg	Vice Chairman of the Board
Dava Carson	Executive Vice President and Chief Financial Officer
Patricia David	Executive VP and Chief Administrative Officer
Richard Agnello	Executive Vice President – Marketing
C. Sue McCormick	Executive Vice President – Marketing
John D. Hatch	General Counsel and Secretary
Paula Larkin	Vice President, Controller, and Treasurer
Dianna Cook	Senior Vice President
Sherman Peek	Senior Vice President
Regina Rohner	Senior Vice President
Ronald Willis	Senior Vice President

¹ Mr. Sheppard resigned from Triton effective December 31, 2003.

Conflict of Interest

Conflict of interest statements are to be executed annually by all elected directors and officers and appointed officers. Signed statements were reviewed for the directors and officers during the examination period. No material conflicts were revealed.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company for the period under examination. The Articles of Incorporation and Bylaws were not amended during the examination period.

The minutes associated with the annual and special meetings of the board of directors, sole shareholder, and actions of the sole shareholder and board of directors in lieu of an annual or special meeting were also reviewed for the period under examination, and appeared to properly reflect and approve all material corporate transactions and events of the Company.

Acquisitions, Mergers and Major Corporate Events

No acquisitions, mergers or major corporate events occurred during the examination period. However, the Subsequent Events Section of this examination report describes the January 2004 Triton purchase of Aristar Insurance Company (Aristar) from Washington Mutual Finance Company for \$42 million and the January 2004 100% coinsurance agreements Triton entered into with Allstate Life Insurance Company and Allstate Life Insurance Company of New York to assume a block of Accidental Death policies.

Surplus Debentures

There were no surplus debentures issued or outstanding for the period under examination.

AFFILIATED COMPANIES

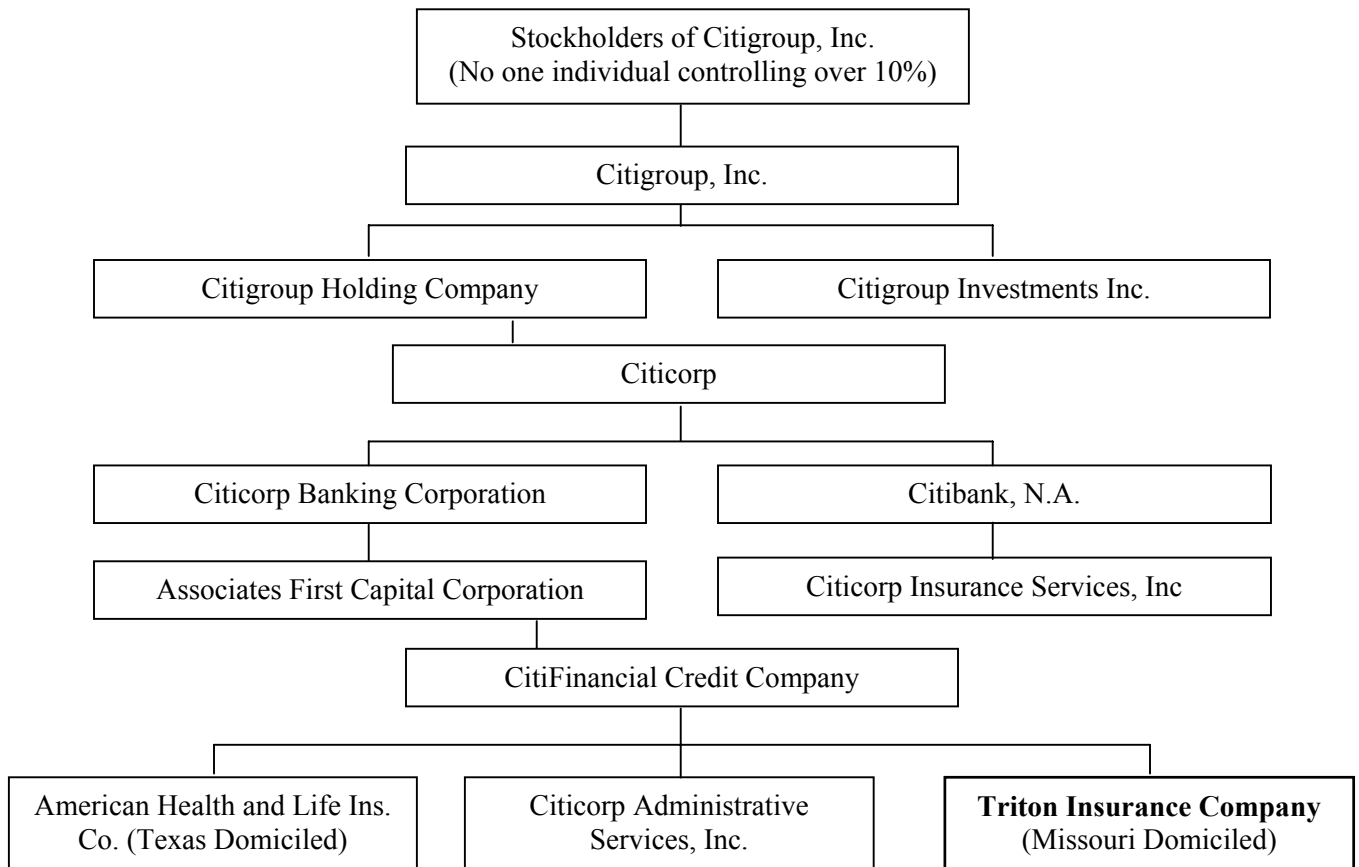
Holding Company, Subsidiaries and Affiliates

As of December 31, 2003, Triton Insurance Company was a member of an Insurance Holding Company System as defined by RSMo Section 382.010, (Definitions). Holding Company Registration Statements were filed by the Company for each of the years under examination, with each statement identifying Citigroup, Inc. as the ultimate controlling entity. Citigroup, Inc. is a bank holding company that is engaged in providing a broad array of financial service products to consumers and corporations on a global basis through a diversified group of companies. Citigroup, Inc. is the world's second largest financial services company, whose stock is publicly traded on the New York Stock Exchange (NYSE), and no one shareholder is believed to own ten percent or more of the outstanding shares.

On January 30, 2004, the Company purchased 100% of the shares of Aristar Insurance Company of Columbia, South Carolina, from Washington Mutual Finance for \$42,222,924. Aristar had no direct business, only reinsured credit property and involuntary unemployment insurance business from the Assurant Insurance companies. Approval for this acquisition was not requested from the Missouri Department of Insurance until after the acquisition had occurred. During the course of the examination, it was noted the Company failed on another occasion to file an intercompany agreement with the Missouri Department of Insurance prior to implementation. The Company should implement procedures to ensure that future transactions requiring prior notice to, or approval from, the Missouri Department of Insurance are submitted in a timely manner in accordance with Missouri Statutes and Regulations.

Organizational Chart

The following organizational chart partially depicts the holding company system of the Company as of December 31, 2003:



Intercompany Transactions

During the period under examination, various transactions between the Company and other affiliated entities within Triton's holding company system occurred pursuant to the following intercompany agreements:

1. Type: Cost Sharing and Service Agreement

 Parties: Triton Insurance Company and American Health and Life Insurance Company (AHL) and CitiFinancial Administrative Services, Inc. (CASI)

 Effective: November 1, 2001

 Terms: AHL agrees to accommodate the day-to-day operations of Triton by providing various administrative and management services. These services include, but are not limited to, the processing of applications for insurance, underwriting, maintenance of books and records, and management of electronic data processing services. In consideration for the services provided, Triton agrees to compensate AHL on the basis of actual cost.
2. Type: Expense Allocation Agreement

 Parties: Triton Insurance Company and The Travelers Insurance Company and other affiliated entities (currently known as Citigroup, Inc.)

 Effective: January 1, 1995, however, Triton Insurance Company became a party to this agreement beginning January 1, 1998.

 Terms: Citigroup, Inc. agrees to perform or obtain services for or incur expenses on behalf of one or more of the remaining parties to the agreement. Such services may include, but not be limited to, financial management, operational management, accounting, internal audit, investment advisory, and data processing services. In connection with these services, Triton, along with the other affiliated parties to this agreement, agrees to reimburse Citigroup, Inc. based on the allocation of expenses for the charges incurred. It is the stated intention of the contracting parties that Citigroup, Inc. neither realize a profit nor incur a loss as a result of providing or obtaining said services.

3. Type: Service Agreement
- Parties: Triton Insurance Company and Citicorp Insurance Services, Inc. (CISI)
- Effective: January 1, 2000
- Terms: Triton engages the services of Citicorp Insurance Services, Inc. to provide the orderly administration for certain insurance coverages issued by Triton for the benefit of the credit and charge card customers of Citibank (South Dakota), N.A. and Citicorp Diners Club, Inc. These services include, but are not limited to, cost analyses, premium calculations and collection, claim administration, data preparation for financial statement entries, and negotiation and collection procedures in all salvage and subrogation matters. In consideration for the administrative services provided, Triton will reimburse CISI for the actual expense incurred.
4. Type: Consolidated Federal Income Tax Agreement
- Parties: Triton Insurance Company and CitiFinancial Credit Company
- Effective: January 1, 1998
- Terms: A consolidated return will be filed by CitiFinancial Credit Company for each taxable year, with the consolidated tax liability being allocated to each member of the group on a basis in which the amount allocated does not exceed the amount which would be due had each member filed a separate stand-alone Federal return.
5. Type: Agency Agreement
- Parties: Triton Insurance Company and various agencies of Commercial Credit Company (currently known as CitiFinancial Credit Company)
- Effective: August 1, 1995

Terms: The various insurance agencies of CitiFinancial Credit Company are authorized to solicit and procure applications of insurance on policies and certificates for insurance coverages issued by Triton. In consideration for the services provided, Triton agrees to pay an advance commission less than or equal to fifty-six percent of net written premiums or the maximum compensation allowed by the individual state insurance laws and/or regulations. In addition to this agreement there is an additional document entitled "Premium Remission Addenda to Group Master Policies" (effective July 13, 1999) in which Triton allows CitiFinancial Credit Company to centralize (collect on Triton's behalf) the premium remission function on behalf of itself and the affiliated lenders, which are policyholders of Triton. Currently this agreement is not active; however, the Company stated that it may be utilized in the future.

Following is a table of the amounts incurred by Triton Insurance Company under the Cost Sharing and Service, Expense Allocation, Service, and Agency Agreements. This table shows the other party to the agreement, the name of the agreement and the dollar amount incurred by Triton in each of the years under examination.

<u>Agreement</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
American Health and Life Insurance Company:			
Cost Sharing and Service Agreement	\$5,574,182	\$6,119,159	\$6,677,003
Citigroup Investment Inc:			
Expense Allocation Agreement	318,000	411,996	309,944
Citicorp Insurance Services, Inc.:			
Service Agreement	0	1,201,579	1,414,895
CitiFinancial Credit Company			
Agency Agreement	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$5,892,182</u>	<u>\$7,732,734</u>	<u>\$8,401,842</u>

In addition to the agreements described above, Triton is a party to various reinsurance agreements involving affiliates. Please refer to the Reinsurance Section of this report for additional details. Triton also paid dividends to its parent during each of the years under examination. These dividends are enumerated in the History Section of this report.

FIDELITY BOND AND OTHER INSURANCE

Triton Insurance Company is a named insured, along with other subsidiaries of Citigroup, Inc., on a financial institution bond and computer crime policy providing fidelity and computer system fraud coverage. Coverage provided under this policy is subject to a loss limit of \$300 million and a per loss deductible of \$3 million.

The Company is also a named insured on other policies purchased by the ultimate parent corporation, Citigroup, Inc., whereby a portion of the total coverage is provided by various affiliated entities. These policies include, but are not limited to, excess all risk coverage, directors and officers liability, property coverage, general liability, and workers' compensation. These additional insurance coverages appear adequate.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Triton Insurance Company has no employees. In accordance with the terms and conditions of a Cost Sharing and Service Agreement entered into between the Company and American Health and Life Insurance Company (AHL) on November 1, 2001, various operational services are provided to the Company by the employees of AHL. As of December 31, 2003, a variety of standard benefits were provided and available to the employees of AHL, which included, but were not limited to, group life insurance, short-term and long-term disability coverage, medical insurance, dental and a 401(k) savings plan. It appears that adequate provisions were made in the Company's 2003 financial statements with regards to its share of the allocated cost for the services provided.

STATUTORY AND OTHER DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient in par and market value to meet the deposit requirement for the State of Missouri in accordance with RSMo Section 379.098, (Insurance other than life - Securities deposit).

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$ 2,500,000	\$ 3,326,575	\$ 3,191,224
U.S. Treasury Bond	500,000	501,875	501,267
Total	<u>\$ 3,000,000</u>	<u>\$ 3,828,450</u>	<u>\$ 3,692,491</u>

Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2003, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Arkansas	U.S. Treasury Note	\$ 125,000	\$ 133,789	\$ 125,314
Florida	U.S. Treasury Note	250,000	267,578	250,629
Georgia	U.S. Treasury Bond	25,000	33,266	31,912
Louisiana	U.S. Treasury Note	70,000	70,263	70,177
Massachusetts	U.S. Treasury Note	500,000	535,155	501,258
New Mexico	U.S. Treasury Note & Bond	230,000	252,680	237,428
North Carolina	U.S. Treasury Note	625,000	668,944	626,572
Tennessee	U.S. Treasury Bond	110,000	110,413	110,279
Virginia	U.S. Treasury Note	<u>110,000</u>	<u>117,734</u>	<u>110,277</u>
Total		<u>\$ 2,045,000</u>	<u>\$ 2,189,822</u>	<u>\$ 2,063,846</u>

Deposits with Other Parties

In addition to the funds on deposit with the various state insurance departments, the Company has certain securities in a trust account designated for the benefit of Republic Vanguard Insurance Company. Under a quota share reinsurance agreement, Republic Vanguard Insurance Company cedes to Triton 100% of its collateral protection business written. Those funds on deposit for the benefit of Republic Vanguard Insurance Company as of December 31, 2003, were as follows:

<u>Type of Security</u>	<u>Par</u> <u>Value</u>	<u>Fair</u> <u>Value</u>	<u>Statement</u> <u>Value</u>
U.S. Treasury Notes	\$ 1,689,000	\$ 1,696,853	\$ 1,694,413
U.S. Treasury Notes	2,120,000	2,277,007	2,113,125
U.S. Treasury Notes	<u>185,000</u>	<u>198,007</u>	<u>184,275</u>
	<u>\$ 3,994,000</u>	<u>\$ 4,171,867</u>	<u>\$ 3,991,813</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance under Chapter 379 RSMo, (Insurance Other Than Life), to write certain lines of property and casualty insurance. As of December 31, 2003, the Company was licensed in forty-five states and the District of Columbia.

The business operations and activities of the Company are principally tied to finance oriented products such as involuntary unemployment insurance and collateral protection insurance. In July 2003, the Company discontinued its credit property business due to collateral

requirement changes on the underlying loans and diminishing product viability. As of December 31, 2003, the Company's business is produced through a network of affiliated consumer finance operations, primarily Citicorp Select, Inc, and an unaffiliated general agent, G.D. van Wagenen Company. The majority of the policies issued by the Company are regarded as short duration risks. During the period under examination, more than seventy-five percent of the Company's direct premiums were written in Arizona, Delaware, Ohio, Texas, and Wisconsin.

Policy Forms & Underwriting; Advertising & Sales; Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff which performs a review of these issues and generates a separate market conduct report. The last MDI Market Conduct Examination [Report #MO001-M138] dated December 25, 1999, was reviewed during the prior examination and no discrepancies were noted which would have a material impact on the Company's financial position. A California Market Conduct Examination was performed from November 2003 through May 2004, however; as of the date of the current MDI examination, this California Examination had not been finalized and was not available for review.

REINSURANCE

General

Premiums written and reinsurance activity for the period under examination were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Direct Premiums	\$ 213,102,543	\$ 147,179,096	\$ 26,490,733
Assumed Premiums:			
Affiliates	19,235,142	-	-
Non-Affiliates	21,333,176	38,089,077	41,040,494
Ceded Premiums:			
Affiliates	(9,678,986)	-	-
Non-Affiliates	<u>(290,686)</u>	<u>(120,807)</u>	<u>(119,196)</u>
Net Premiums Written	<u>\$ 243,701,189</u>	<u>\$ 185,147,366</u>	<u>\$ 67,412,031</u>

Assumed

A major portion of the business assumed by the Company during the period under examination represented the following product lines: involuntary unemployment insurance, collateral protection insurance, and personal effects and cargo insurance.

Triton entered into a quota share agreement with American Bankers Insurance Company (ABIC), effective January 1, 2001, to assume 100% of the group, franchise, or individual policies of credit property, credit involuntary unemployment, and credit leave of absence insurance produced by various private labels. This agreement was amended on November 3, 2003, to include certain Sears policies commuted by Sears Reinsurance Company LTD, as described below. During 2003, Triton assumed \$9,964,931, or 25% of total assumed premiums, from ABIC under this agreement. Triton has entered into several other 100% quota share reinsurance agreements with ABIC; however, the majority of these agreements are in runoff. The total premium assumed under these additional agreements with ABIC during 2003 was \$7,511,575, or 18% of total assumed premiums.

The Company entered into a quota share agreement with Gulf Insurance Company, effective January 1, 1993, and amended on December 31, 1995. Under this agreement, Triton

reinsures 100% of the collateral protection vendor single interest, involuntary unemployment insurance and property coverage written by Gulf Insurance Company. During 2003, the Company assumed \$1,639,782, or 4% of total assumed premiums, and recorded unearned premiums of \$19,148,072, or 79% of total assumed unearned premiums, under this agreement.

The Company currently has several other reinsurance agreements that have been terminated and are now in run-off status. Triton has a quota share reinsurance agreement with American Security Insurance Company (ASIC) and Standard Guaranty Insurance Company (SGIC) that covers 100% of group, franchise or individual policies and/or contracts of involuntary unemployment and leave of absence insurance, with Citibank N.A. and/or its credit extending subsidiaries and affiliates named as the beneficiary, covering risks related to Citibank N.A.'s credit card extensions of credit and subject to the Insurance Services Agreement dated May 1, 1998, among ASIC & SGIC, Union Security Life Insurance Company, and Citicorp Credit Services, Inc. During 2003, Triton assumed \$16,684,487, or 41% of total assumed premiums, under this agreement.

During 2003, Sears, Roebuck and Co. (parent of Sears Reinsurance Company LTD (SRC) and Sears Life Insurance Company) entered into a Purchase, Sale and Servicing Transfer Agreement (Sears Transaction) with Citicorp, Inc. (parent of Triton). As part of this Agreement, Triton entered into several reinsurance agreements related to the Sears Transaction.

On October 31, 2003, Triton entered into a Novation, Assignment and Release Agreement with SRC, Balboa Insurance Company (Balboa), and Meritplan Insurance Company (Meritplan). Under this agreement, Triton accepts and assumes, and SRC assigns and transfers,

all of SRC's rights, liabilities, and obligations under the reinsurance agreement between SRC and Balboa & Meritplan in full substitution of SRC.

Triton and an affiliate, American Health and Life Insurance Company (AHL), entered into a Reinsurance Commutation and Release Agreement with SRC, effective November 3, 2003. Under this agreement, all liabilities and obligations of SRC from original reinsurance agreements with American Bankers Life Assurance Company, American Bankers Insurance Company (ABIC), American Security Insurance Company, and First Fortis Insurance Company were fully settled and commuted. Effective, November 3, 2003, Triton and AHL and SRC entered into a Liability Allocation and Indemnification Agreement, under which the parties confirmed that SRC was released from all liabilities and obligations under or arising out of the assumed reinsurance agreements that were commuted and released to Triton and AHL. As noted above, Triton had a pre-existing reinsurance agreement with ABIC, which was amended to include the provisions of the commutation.

Subsequent to the examination period, on March 31, 2004, Triton entered into a quota share reinsurance agreement with Allstate Life Insurance Company and a quota share reinsurance agreement with Allstate Life Insurance Company of New York. Effective January 1, 2004, Triton assumed 100% of certain policies that the Allstate Companies wrote on behalf of prior agreements with Sears Life Insurance Company and Sears Insurance Services LLC.

Ceded

The Company's current level of ceded business is minimal and is primarily in runoff. The net premium ceded during 2003 was \$119,196.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

Independent Auditor

The financial statements of the Company were audited annually by KPMG LLP, Certified Public Accountants, of Dallas, Texas, for the period being examined. In each of the years under examination, KPMG LLP concluded that the financial statements of the Company, in all material aspects, present fairly the admitted assets, liabilities, and capital and surplus, results of operations and cash flows in conformity with the accounting practices prescribed or permitted by the Missouri Department of Insurance.

Independent Actuary

In each of the years under examination, the actuarial assumptions and methods used by the Company in determining losses, loss adjustment expenses and other related actuarial items were reviewed and certified by Glenn A. Tobleman, FCAS, FSA, MAAA, of Lewis & Ellis, Inc. The independent actuary in each of the years under examination concluded that the reserve and other related items make a conservative provision, in the aggregate, for all unpaid obligations under the terms of policies and agreements of the Company and meet the requirements of the insurance laws of the state of Missouri.

Unearned Premium Documentation

SSAP No. 65 dictates that "...gross unearned premium reserve shall be no less than the largest result of the three tests described in paragraph 27 to 29" for policies with coverage periods equal to or in excess of thirteen months. The 2003 Lewis & Ellis, Inc. (L&E) Statement of Actuarial Opinion did not address the "three tests" and the Company had not completed the calculations required by the three tests prior to such being requested by the MDI Examiners. The report L&E subsequently provided addressed the issue adequately. Triton should prepare support on a yearly basis to show its unearned premium reserve is sufficient per the "three tests" described in SSAP #65. In addition, the Company should ensure the actuarial opinion contains the required disclosures of long-duration UEP calculations.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

ASSETS

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$565,621,855	\$0	\$565,621,855
Preferred stocks	10,653,975	-	10,653,975
Cash and cash equivalents	39,300,553	-	39,300,553
Other invested assets	571,745	-	571,745
Investment income due & accrued	6,535,266	-	6,535,266
Other amounts receivable under			
reinsurance contracts	11,900,699	-	11,900,699
Net deferred tax asset	17,369,792	7,528,000	9,841,792
Guaranty funds receivable	548,099	548,099	-
Receivable from parent, subsidiaries			-
and affiliates	<u>331,745</u>	<u>-</u>	<u>331,745</u>
Total Assets	<u><u>\$652,833,729</u></u>	<u><u>\$8,076,099</u></u>	<u><u>\$644,757,630</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 38,082,282
Loss adjustment expenses	245,289
Contingent commissions and other similar charges	3,366,828
Other expenses	395,696
Taxes, licenses and fees	(4,401,339)
Federal and foreign income taxes	1,925,138
Unearned premiums	231,658,910
Dividends declared and unpaid: Stockholders	5,744,000
Remittances and items not allocated	(756,769)
Provision for reinsurance	30,000
Payable to parent, subsidiaries and affiliates	2,641,626
Payable for securities	26,111
Aggregate write-ins for liabilities:	
Due to reinsurers	1,325,081
Miscellaneous accounts payable	640,279
Total Liabilities	<u>\$ 280,923,132</u>
 Common capital stock	 \$ 3,400,000
Gross paid in and contributed surplus	28,400,000
Unassigned funds (surplus)	332,034,496
Surplus as regards policyholders	<u>\$ 363,834,496</u>
Total Liabilities and Surplus	<u><u>\$ 644,757,628</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT

UNDERWRITING INCOME

Premiums earned	\$190,029,478
Losses incurred	49,267,636
Loss expenses incurred	747,397
Other underwriting expenses incurred	42,606,493
Total underwriting deductions	92,621,526
Net underwriting gain or (loss)	\$ 97,407,952

INVESTMENT INCOME

Net investment income earned	\$ 39,765,612
Net realized capital gains or (losses)	(2,931,504)
Net investment gain or (losses)	\$ 36,834,108
Net income before dividends to policyholders and before federal taxes	\$134,242,060
Federal income taxes incurred	37,808,369
Net income	\$ 96,433,691

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2002	\$293,295,270
Net income	96,433,691
Net unrealized capital gains or (losses)	5,455,735
Change in net deferred income tax	(8,585,208)
Change in non-admitted assets	6,937,008
Change in provision for reinsurance	(30,000)
Dividends to stockholders (cash)	<u>(29,672,000)</u>
Net change in capital and surplus for the year	<u>\$ 70,539,226</u>
Capital and surplus, December 31, 2003	<u>\$363,834,496</u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Holding Company, Subsidiaries, and Affiliates (Page 9)

During the course of the examination it was noted that the Company failed to file an intercompany agreement and its purchase of Aristar with the Missouri Department of Insurance prior to the implementation or acquisition, as required by Missouri Statutes and Regulations. The Company should implement procedures to ensure that future transactions requiring prior notice to, or approval from, the Missouri Department of Insurance are submitted in a timely manner.

Unearned Premium Documentation (Page 22)

Triton did not complete the long-duration unearned premium calculations required by the three tests described in SSAP No. 65 prior to such being requested by the MDI Examiners. In the future, Triton should prepare support on a yearly basis to show its unearned premium reserve is sufficient per the "three tests." In addition, the Company should ensure the actuarial opinion contains the required disclosures of long-duration UEP calculations.

SUBSEQUENT EVENTS

Effective January 1, 2004, Triton entered into 100% coinsurance agreements with Allstate Life Insurance Company and Allstate Life Insurance Company of New York, in which the Company assumes 100% of the Accidental Death policies in force as of December 31, 2003 and all new policies written by the direct writers. Please see the Reinsurance Section of this report for additional details.

On January 5, 2004 the Company entered into an agreement "The Insurance Program Provider Agreement" with Citibank (South Dakota), N.A. and Citicorp Credit Services, Inc (affiliated companies). The agreement allows Triton to solicit business from their credit card holders. Triton has the authority to sell involuntary unemployment insurance and accidental health insurance to the cardholders of Citibank and Citicorp Credit Services for a fee. This agreement had earned premiums of approximately \$1 million in 2004.

On January 30, 2004, the Company purchased 100% of the shares of Aristar Insurance Company of Columbia, South Carolina, from Washington Mutual Finance for \$42,222,924. Aristar had no direct business, only reinsured credit property and involuntary unemployment insurance business from the Assurant Insurance companies.

Effective March 19, 2004, the Company entered into a reinsurance agreement with American Modern Home Insurance Company. Under this agreement, Triton ceded a block of collateral protection policies in-force and all new collateral protection policies written by Van Wagenen, the producer of the business. Policy and loss reserves of \$16.9 million were ceded under the agreement.

Effective July 1, 2004, Triton entered into an agreement named "Assignment of Reinsurance and Card Account Service Agreement" with Central States Indemnity Co. of Omaha, General Fidelity Insurance Company, and Tryon Assurance Company in which Triton replaces these companies in their assumption of the existing credit insurance program of Bank of America, N.A. The business includes credit accidental death insurance, credit accident and health insurance, and credit involuntary unemployment insurance issued under a master policy by Central States Indemnity Co. of Omaha. The total cost to Triton will be \$33.6 million. The agreement allows Triton to make payments to the companies in two installments, \$18.1 million on July 1, 2004 and \$15.5 million on January 1, 2005.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers of Triton Insurance Company and the employees of American Health and Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Larry Kleffner, CFE, Steven Koonse, CFE, and Angela Campbell, CFE, examiners for the Missouri Department of Insurance, participated in this examination. The actuarial firm of Expert Actuarial Services, LLC, of Chesterfield Missouri performed an actuarial analysis as part of this examination.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Vicki Denton, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Vicki L. Denton

Vicki L. Denton, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 5 day of April

My commission expires:

Feb. 3, 2009

Caranda J. Lewis
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Indira J Kase

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance

Tritonsm Insurance Company

307 West 7th Street, Suite 400
Fort Worth, Texas 76102

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MO INS DEPT

March 31, 2005

Kirk Schmidt
Chief Financial Examiner
Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

Dear Mr. Schmidt:

We have reviewed the examination report from the State of Missouri Department of Insurance for Triton Insurance Company. In regards to the two recommendations cited in the report, we wish to include the following responses:

1. Holding Company, Subsidiaries, and Affiliates

Comment: "During the course of the examination it was noted that the Company failed to file an intercompany agreement and its purchase of Aristar with the Missouri Department of Insurance prior to the implementation or acquisition, as required by Missouri Statutes and Regulations. The Company should implement procedures to ensure that future transactions requiring prior notice to, or approval from, the Missouri Department of Insurance are submitted in a timely manner".

Response: As acknowledged at the Departmental hearing on the Aristar acquisition, Triton understands that such acquisitions are not to go forward in the future without prior notice to, and approval by, the Department. At the time the purchase agreement was entered into between Triton's parent and Washington Mutual, Triton reviewed the Insurance Code's holding company rules regarding acquisition, but overlooked the acquisition requirements in another part of the Code. That error will not be repeated in the future.

2. Unearned Premium Documentation

Comment: Triton did not complete the long-duration unearned premium calculations required by the three tests described in SSAP No. 65 prior to such being requested by the MDI Examiners. In the future, Triton should prepare support on a yearly basis to show its unearned premium reserve is sufficient per the "three tests." In addition, the Company should ensure the actuarial opinion contains the required disclosures of long-duration UEP calculations.

Response: The appointed Actuary for Triton was informed of these requirements and has specifically included this comment in the Actuarial Memorandum for 2004.

Thank you for giving us the opportunity to include these responses.

Respectfully submitted,



Darrell Gambero, President